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Summary:

Waupaca City, Wisconsin; General Obligation

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Table Of Contents

Rationale

Outlook

Related Research

Summary:

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Credit Profile

US\$3.95 mil GO prom notes ser 2018A dtd 03/05/2018 due 03/01/2025

Long Term Rating

A+/Stable

New

Rationale

S&P Global Ratings assigned its 'A+' rating and stable outlook to Waupaca City, Wis.' series 2018A general obligation (GO) promissory notes to be issued in 2018.

The city's full-faith-and-credit pledge and unlimited-taxing power secure the GO promissory notes.

Officials intend to use series 2018 note proceeds to current refund the city's series 2008 GO refunding bonds and fund 2018 capital improvement projects.

The rating reflects our opinion of the city's:

- Weak economy, with market value per capita of \$70,479 and projected per capita effective buying income at 87.3% of the national level;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund but breakeven operating results at the total-governmental-fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 22% of operating expenditures;
- Very strong liquidity, with total government available cash at 49.1% of total-governmental-fund expenditures and 1.8x governmental debt service;
- Weak debt-and-contingent-liability position, with debt service carrying charges at 27.2% of expenditures and net direct debt that is 123.8% of total-governmental-fund revenue, but rapid amortization, with 93.2% of debt scheduled to be retired within 10 years; and
- Adequate institutional framework score.

Weak economy

We consider Waupaca's economy weak. The city, with an estimated population of 6,050, is in Waupaca County. The city has a projected per capita effective buying income of 87.3% of the national level and per capita market value of \$70,479. Overall, market value grew by 7.9% over the past year to \$426.4 million in fiscal 2017. The county unemployment rate was 4.1% in 2016.

Waupaca is the county's seat, approximately 40 miles west of Appleton. Waupaca has a commercial, manufacturing, and tourism presence in the area. Based on equalized valuation, the city is 46% residential, followed by commercial properties at 40%. Leading area employers include:

- Waupaca Foundry (1,500 employees),
- Wisconsin Veterans' Home (1,000-plus), and
- Waupaca County government (382).

Management reports the economy is improving with the residential market on the upswing. Notably, the foundry, which is expanding, is a large employment draw in the region. However, manufacturing accounts for 28% of county employment, which we view as an offsetting credit factor.

Strong management

We view the city's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas but that governance officials might not formalize or monitor all of them on a regular basis.

Elements of the city's policies and practices include its:

- Realistic and well-grounded assumptions when setting the annual budget;
- Monthly budget-to-actual monitoring with reports to the city council;
- Lack of formal general fund financial projections;
- Maintenance of a long-term capital plan it updates every year and shows to the council;
- Formal investment-management policy with monthly investment monitoring and reports to the council;
- Formal debt-management policy, which is more restrictive than state law and limitations; and
- Formal fund-balance policy that calls for maintaining general fund available reserves between 12% and 25% of general fund expenditures.

Strong budgetary performance

Waupaca's budgetary performance is strong, in our opinion. The city had surplus operating results in the general fund of 7.8% of expenditures but breakeven results across all governmental funds in fiscal 2016. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from fiscal 2016 results over the next few fiscal years.

For our analysis, we have adjusted for routine transfers into and out of the general fund, as well as removing one-time expenditures and refunding costs. Management attributes the fiscal 2016 7.8% general fund surplus primarily to conservative budgeting and lower salary costs due to several retirements during fiscal 2015. For fiscal 2017, city estimates show breakeven results in the general fund. Therefore, we do not think budgetary performance will likely be as strong as fiscal 2016 results; based on historical trends, we believe budgetary performance is typically adequate or strong. Property taxes account for 60% of general fund revenue, followed by intergovernmental revenue at 28%.

For fiscal 2018, Waupaca adopted a \$138,000 general fund deficit, which is largely due to a contingency line item it does not currently plan to use. Management indicates it would likely produce positive general fund results if it does not use the contingency line item. Due to the city's mixed general fund results recently, we expect budgetary performance to remain strong or, at least, adequate most years.

Very strong budgetary flexibility

Waupaca's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 22% of operating expenditures, or \$1.3 million.

Due to management's expectation of, at least, breakeven operations for fiscal 2017 and positive results for fiscal 2018, we believe the city will likely maintain very strong budgetary flexibility during the next two fiscal years.

Very strong liquidity

In our opinion, Waupaca's liquidity is very strong, with total government available cash at 49.1% of total-governmental-fund expenditures and 1.8x governmental debt service in fiscal 2016. In our view, the city has satisfactory access to external liquidity if necessary.

Based on past debt issuance, we believe Waupaca has satisfactory access to capital markets to provide liquidity, if needed. The city does not currently have any privately placed or direct-purchase debt. We consider Waupaca's investments nonaggressive because it primarily invests in local bank deposits. Management has not indicated a need to draw on total cash, so we expect liquidity to remain very strong.

Weak debt-and-contingent-liability profile

In our view, Waupaca City's debt-and-contingent-liability profile is weak. Total-governmental-fund debt service is 27.2% of total-governmental-fund expenditures, and net direct debt is 123.8% of total-governmental-fund revenue. Approximately 93.2% of direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

Management indicates it could issue \$268,000 of GO debt in late 2018. We do not expect this issuance to have a material effect on the city's debt profile.

Waupaca's pension contributions totaled 2.6% of total-governmental-fund expenditures in fiscal 2016. The city made its full annual required pension contribution in fiscal 2016.

Eligible Waupaca employees participate in the Wisconsin Retirement System (WRS), a multiemployer, defined-benefit pension plan. At Dec. 31, 2016, the city reported a liability of \$388,576 for its proportionate share of the net pension liability. During the same period, the city's portion of contributions to WRS totaled \$233,643. The city does not currently offer other postemployment benefits.

Adequate institutional framework

The institutional framework score for Wisconsin cities and villages with a population less than 25,000 is adequate.

Outlook

The stable outlook reflects S&P Global Ratings' opinion that Waupaca will likely maintain its very strong budgetary flexibility and liquidity during the two-year outlook period. We believe the presence of good management policies provide additional rating stability. We do not expect to change the rating over the outlook period.

Upside scenario

We could raise the rating if per capita market value and income were to strengthen and if workforce employment concentration were to remain diverse.

Downside scenario

We could lower the rating if unforeseen fiscal pressure were to lead to significantly decreased reserves, particularly due to the budget, or if debt were to increase substantially.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2017 Update Of Institutional Framework For U.S. Local Governments

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